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Mr Steve Ong
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Hong Kong Institute of Certified Public Accountants
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21 May 2009

Dear Mr Ong

<u>Response to IASB Discussion Paper on *Preliminary Views on Revenue Recognition in Contracts with Customers*</u>

We refer to your letter of 2 February 2009 to invite comments on the Discussion Paper on *Preliminary Views on Revenue Recognition in Contracts with Customers* issued by International Accounting Standards Board (IASB) in December 2008.

We are pleased to respond to the IASB Discussion Paper. Our major concern, as we mentioned below, is the proposed allocation of revenue to different performance obligations. This may involve the use of estimates which undermines the reliability and objectivity of financial statements. Moreover, we also envisaged that significant administrative costs would be incurred in order to monitor the revenue recognition of each of those performance obligations. These costs may out weight the potential benefits of the proposal.

The following sets out our views in order of the questions raised in the Discussion Paper:

1. No comment.

2. CLP's electricity business in Hong Kong is operated under a Scheme of Control (SoC) entered with the Hong Kong Government. Under the SoC, if the gross tariff revenue in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to the Tariff Stabilisation Fund (referred as "transfer for SoC" in the financial statements) and is recognised as revenue adjustment in the income statement.

   However, the SoC agreement is not a contract with customers so the transfer for SoC may not qualify as revenue adjustment under the board's proposed principle. This may not provide decision-useful information as the Hong Kong SoC business is a central element of CLP's operations. To cater for the needs of regulated businesses like CLP, we suggest the board to consider expanding the definition of customers to include government acting on behalf of customers as a whole.

3. No comment.

4. No comment.

5. We do not agree. The separation of performance obligations in a contract on the basis of when the entity transfers the promised assets to the customers may result in a transaction being split into a number of components, while the separation of which involves the use of estimates.

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For the case of CLP, the supply of electricity to our customers involves a number of performance obligations:

- Construction of power system network for connection to our customers;
- Physical supply of electricity;
- Maintaining a sufficient and reliable supply of electricity;
- Customer accounts maintenance and other customers support.

In our case, we only charge customers for the physical supply of electricity based on the units of consumption. Any allocation of revenue to the performance obligations would involve heavy use of estimates. This may undermine the objectivity and reliability of financial statements and we do not think that any additional information useful to the users of financial statements would be resulted from the process.

Moreover, such allocation process would incur significant administrative costs to monitor the revenue recognition of each of these performance obligations and out weight the benefits of the proposal.

In our opinion, performance obligation should be separated based on the substance of the transaction. Management should exercise their judgement to decide which activities are the substance of the transaction and which are only incidental. If an activity is only incidental, no revenue should be allocated to it.

6. No comment.

7. No comment.

8. No comment.

9. No comment.

10. (a) No comment.

(b) No comment.

(c) No comment.

(d) No comment.

11. (a) No comment.

(b) No comment.

12. No comment.

13. No comment.

We welcome the opportunity to comment on the Discussion Paper and are happy to discuss this letter further with you.

Yours sincerely

Robert Kwok

Robert Kwok
Accounting Manager – Technical & Development